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Exhibit No: Issue: Depreciation Witness: Thomas J. Sullivan Type of Exhibit: Direct Testimony Sponsoring Party: Empire District Gas Case No.: Date Prepared: June 2009

#### Before the Public Service Commission of the State of Missouri

### **Direct Testimony**

of

# Thomas J. Sullivan

Jefferson City, Missouri

June 2009

Empire\_Exhibit No.\_\_\_\_\_ Case No(s). U.2- 2009-0434 Date 1-08-10 Rptr 44

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#### THOMAS J. SULLIVAN DIRECT TESTIMONY

#### DIRECT TESTIMONY OF THOMAS J. SULLIVAN THE EMPIRE DISTRICT GAS COMPANY BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION CASE NO.

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1	Q.	PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.								
2	A.	Thomas J. Sullivan, 11401 Lamar, Overland Park, Kansas 66211.								
3	Q.	WHAT IS YOUR OCCUPATION?								
4	A.	I am currently a Managing Director in the Rate and Regulatory Advisory								
5		Solution Set of the Enterprise Management Solutions Division of Black &								
6		Veatch Corporation.								
7	Q.	HOW LONG HAVE YOU BEEN ASSOCIATED WITH BLACK &								
8		VEATCH?								
9	A.	I have been employed by the Company since 1980.								
10	Q.	WHAT IS YOUR EDUCATIONAL BACKGROUND?								
11	Α.	I earned a Bachelor of Science Degree in Civil Engineering from the University								
12		of Missouri - Rolla in 1980, summa cum laude, and a Master of Business								
13		Administration degree from the University of Missouri - Kansas City in 1985.								
14	Q.	ARE YOU A REGISTERED PROFESSIONAL ENGINEER?								
15	Α.	Yes, I am a registered Professional Engineer in the State of Missouri.								
16	Q.	TO WHAT PROFESSIONAL ORGANIZATIONS DO YOU BELONG?								
		I am a member of the American Society of Civil Engineers.								
17	Α.	I am a member of the American Society of Civil Engineers.								

#### THOMAS J. SULLIVAN DIRECT TESTIMONY

1	A.	I have been responsible for the preparation and presentation of numerous studies for gas,
2		electric, water, and wastewater utilities. Clients served include investor-owned utilities,
3		publicly owned utilities, and their customers. Studies involve valuation and depreciation,
4		cost of service, cost allocation, rate design, cost of capital, supply analysis, load
5		forecasting, economic and financial feasibility, cost recovery mechanisms, and other
6		engineering and economic matters.
7		Prior to joining the Enterprise Management Solutions Division in 1982, I worked as a
8		staff engineer in Black and Veatch's Energy and Water Divisions.
9	Q.	HAVE YOU PREVIOUSLY APPEARED AS AN EXPERT WITNESS?
10	A.	Yes, I have. In Schedule TJS-1, I list cases where I have filed expert witness testimony.
11	Q.	FOR WHOM ARE YOU TESTIFYING IN THIS PROCEEDING?
12	A.	I am testifying on behalf of The Empire District Gas Company ("EDG" or
13		"Company").
14	Q.	WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS MATTER?
15	A.	To review the Company's existing depreciation rates and, where appropriate,
16		recommend changes to those rates such that the rates will, as accurately as
17		possible, match the useful life of the property and the Company's recent
18		experience with net salvage. A complete depreciation study was performed for
19		the Company's plant in service at December 31, 2008 to determine the
20		appropriate useful life and recent experience with net salvage.
21	Q.	DO YOU SPONSOR ANY SCHEDULES IN CONNECTION WITH YOUR
22		DIRECT TESTIMONY?

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1	A.	Yes, in addition to Schedule TJS-1 previously discussed, I also sponsor Schedule						
2		TJS-2. Schedule TJS-2 is the report on depreciation accrual rates, produced in						
3		conjunction with the aforementioned depreciation study, prepared by Black &						
4		Veatch Corporation dated April 2009.						
5	Q.	WHAT ARE YOUR RECOMMENDATIONS REGARDING THE						
6		COMPANY'S DEPRECIATION ACCRUAL RATES?						
7	Α.	In my report, Schedule TJS-2, I recommend the Company implement the						
8		depreciation expense rates shown in column Q of Table 5-4, which are based on						
9		the whole life technique.						
10	Q.	WHAT IS THE IMPACT OF THE WHOLE LIFE DEPRECIATION RATES						
11		YOU ARE RECOMMENDING FOR EDG?						
12	A.	As seen in Table 5-4, the depreciation rates I am recommending for this case						
13		result in an increase in annual depreciation expense of \$106,124 based on plant						
14		in service at December 31, 2008. Of this amount, \$12,935 is attributable to						

recommended changes in average service lives and \$93,189 is attributable to
 recommended changes in the net salvage allowance.

17 Q. DO THE COMPANY'S EXISTING DEPRECIATION RATES INCLUDE AN

#### 18 ALLOWANCE FOR NET SALVAGE?

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19 A. No, the Company's existing depreciation rates do not include net salvage. The
20 Company does, however, have a provision for net cost of removal of \$93,189 in
21 current rates. This is the amount that was allowed in Aquila Inc.'s last rate case,
22 in Case No.GR-2004-0072. Based on the order in that case, EDG has been

1 booking actual cost of removal as an expense up to \$90,163 and any actual amount more or less is recorded in the accumulated depreciation reserve. 2 3 **Q**. DOES THE CURRENT PROVISION FOR NET COST OF REMOVAL 4 **REFLECT THE COMPANY'S RECENT EXPERIENCE?** 5 Α. No, it does not. As shown in my report, Schedule TJS-2, Table 5-1, column J, the 6 five year average (2004-2008) net cost of removal experienced by the Company 7 is \$183,625. 8 **Q**. WHAT IS YOUR RECOMMENDATION FOR THE COMPANY'S COST OF 9 **REMOVAL ALLOWANCE?** 10 Α. I am recommending the Company include the net cost of removal allowance in 11 To calculate the cost of removal portion of the the depreciation rate. 12 depreciation rate by account, I have divided the recommended cost of removal allowance shown in column K of Table 5-1 in Schedule TJS-2 by the plant in 13 14 service at December 31, 2008. The resulting "cost of removal rate" is shown in column G of Table 5-2 in Schedule TJS-2. 15 HOW ARE YOUR RECOMMENDED COST OF REMOVAL RATES 16 **Q**. 17 INCORPORATED INTO YOUR RECOMMENDED DEPRECIATION 18 RATES? 19 Α. The cost of removal rates are added to the life related accrual rates to calculate 20 my recommended whole life depreciation rates. Based on my recommended 21 depreciation rates, all of the actual incurred cost of removal and gross salvage 22 should be booked to the depreciation reserve, and there would not be an expense

allowance.

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# 1Q.WHY IS THE APPROACH TO NET SALVAGE YOU ARE2RECOMMENDING PREFERABLE?

- A. The approach I am recommending where the depreciation rate includes both the
  allowance for depreciation and net salvage is preferable because:
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- 1. It is the historical method that had been used by Aquila and its predecessors with regard to these gas properties.
- 2. It does not split up the net salvage allowance between a separate expense item and depreciation reserve.
- 9 3. By keeping the net salvage allowance as one piece, it is easier to 10 track the amount actually incurred versus the amount accrued and 11 adjust the accrual rate as needed to keep depreciation reserve in 12 better balance with actual experience.
- 13 In addition, the annual allowance approach I am recommending is preferable to 14 using a percentage of retirement approach (where net salvage is divided by the applicable retirement and then that percentage is applied to the entire plant 15 16 balance) because the percentage of retirement approach assumes that the percentage calculated will apply to all plant when it is retired. In my opinion, 17 this is a faulty assumption because the circumstances under which current 18 19 retirements are made are not likely to be the same circumstances under which 20 final retirements will occur. Absent a detailed study of the cost of final 21 retirement, the annual allowance approach is preferable.
- 22

# Q. DOES THIS CONCLUDE YOUR PREPARED DIRECT TESTIMONY?

23 A. Yes, it does.

Schedule\_TJS-1 Page 1 of 3

# **Expert Witness Testimony of Thomas J. Sullivan** Peoples Natural Gas Company of South Carolina, South Carolina Public Service Commission Docket No. 88-52-G (1988). Natural gas utility revenue requirements and rate design. Peoples Natural Gas (UtiliCorp United, Inc.), Iowa Utilities Board Docket No. RPU-92-6 (1992). Natural gas utility class cost of service study and peak day demand requirements. Peoples Natural Gas (UtiliCorp United, Inc.), Kansas Corporation Commission Docket No. 193,787-U (1996). Natural gas utility class cost of service study, rate design, and peak day demand requirements. Southern Union Gas Company, Railroad Commission of Texas Gas Utilities Docket No. 8878 (1998). Natural gas utility depreciation rates. Southern Union Gas Company, City of El Paso (1999). Natural Gas utility depreciation rates. <u>UtiliCorp United, Inc., Kansas Corporation Commission Docket No. 00-UTCG-336-RTS</u> (1999). Natural gas utility weather normalization, class cost of service, and rate design. Philadelphia Gas Works, Pennsylvania Public Utility Commission Docket No. R-00006042 (2001). Natural gas utility revenue requirements. Missouri Gas Energy, Missouri Public Service Commission Docket No. GR-2001-292 (2001). Natural gas utility depreciation rates. Aquila Networks, Iowa Utilities Board Docket No. RPU-02-5 (2002). Natural gas utility class cost of service study, rate design, and weather normalization adjustment. Aquila Networks, Michigan Gas Utilities, Michigan Public Service Commission Case No. U-

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- Aquila Networks, Michigan Gas Utilities, Michigan Public Service Commission Case No. U-<u>13470 (2002)</u>. Natural gas utility class cost of service study, rate design, and weather normalization adjustment.
- 18 <u>Aquila Networks, Nebraska Public\_Service\_Commission\_Docket\_No.\_NG-0001, NG0002,</u> <u>NG0003 (2003).</u> Natural gas utility weather normalization adjustment.

Aquila Networks, Missouri Public Service Commission Docket No. GR-2003 (2003). Natural gas utility class cost of service study, rate design, annualization adjustment, and weather normalization adjustment.

- North Carolina Natural Gas, North Carolina Utilities Commission Docket No. G-21-Sub 442 (2003). Filed intervenor testimony on behalf of the municipal customers regarding natural gas cost of service and rates related to intrastate transmission service.
- Texas Gas Service Company, Division of ONEOK, Railroad Commission of Texas Gas <u>Utilities Docket No. 9465 (2004)</u>. Natural gas utility depreciation rates.

- <u>Missouri Gas Energy, Missouri Public Service Commission Docket No. GR-2004-0209 (2004)</u>
- 2 Natural gas utility depreciation rates.
- 3 <u>Aquila Networks, Kansas Corporation Commission Docket No. 05-AQLG-367-RTS (2004).</u> Natural gas utility weather normalization, class cost of service, and rate design.
- Aquila Networks, Iowa Utilities Board Docket No. RPU-05-02 (2005). Natural gas utility class cost of service study, rate design, grain drying adjustment and weather normalization adjustment.
- PJM Interconnection, LLC, Federal Energy Regulatory Commission Docket No. ER05-1181 (2005). Operating cash reserve requirements.
- Kinder Morgan, Inc., Wyoming Public Service Commission Docket No. 30022-GR-6-73 (2006). Natural gas utility weather normalization adjustment, development of load factors, billing cycle adjustment, determination of test year billing units and revenues, and depreciation rates.
- Missouri Gas Energy, Missouri Public Service Commission Docket No. GR-2006-0422 (2006). Natural gas utility depreciation rates.
- <u>Kinder Morgan, Inc., Nebraska Public Service Commission Docket No. NG-0036 (2006).</u> Natural gas utility weather normalization adjustment, test year billing determinants and revenues under existing rates, customer and usage trends and rate design.
- <u>Aquila Networks, Kansas Corporation Commission Docket No. 07-AQLG-431-RTS (2006).</u> Natural gas utility class cost of service study, rate design, irrigation adjustment, and weather normalization adjustment.
- Aquila Networks, Nebraska Public Service Commission Docket No. NG-0041-RTS (2006).
   Natural gas utility jurisdictional and class cost of service study, rate design, and revenue synchronization adjustment.
- *Zia Natural Gas Company, New Mexico Public Regulation Commission Case No. 08-00036-UT (2008).* Natural gas utility billing determinants and revenues, weather normalization adjustment, customer growth adjustment, peak day analysis, revenue requirement, class cost of service study, and rate design.
- SourceGas Distribution, LLC, The Public Utilities Commission of the State of Colorado <u>Docket No. 08S-0108G (2008)</u>. Natural gas utility weather normalization adjustment, irrigation adjustment, group load factor analysis, therm billing, test year billing determinants and revenues, and trends in customer usage.
- Black Hills/Iowa Gas Utility Company, LLC (fka Aquila Networks), Iowa Utilities Board Docket No. RPU-08-3 (2008) Natural gas utility weather normalization adjustment, grain drying adjustment, revenue synchronization adjustment, class cost of service study, and rate design.

Schedule\_TJS-1 Page 3 of 3

 <u>Black Hills/Colorado Gas Utility Company, LLC (fka Aquila Networks). The Public Utilities</u> <u>Commission of the State of Colorado Docket No. 08S-430G (2008)</u> Natural gas utility weather normalization, revenue synchronization adjustment, customer reclassification, thermal billing, test year billing determinants, revenues under existing and proposed rates, class cost of service study, and rate design.

 Wyoming Gas Company, Wyoming Public Service Commission Docket No 30009-48-GR-8 (2008) Natural gas utility weather normalization adjustment, test year billing determinants, revenues under existing and proposed rates, rate of return, revenue requirement, class cost of service study, and rate design.

 Missouri Gas Energy, Missouri Public Service Commission Docket No. GR-2009-0355 (2009). Natural gas utility depreciation rates.

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#### AFFIDAVIT OF THOMAS J. SULLIVAN

#### STATE OF MISSOURI ) ) ss COUNTY OF RAY )

On the  $\underline{\exists \square}$  day of June, 2009, before me appeared Thomas J. Sullivan, to me personally known, who, being by me first duly sworn, states that he is a Director in the Enterprise Management Solutions Division of Black & Veatch Corporation and acknowledges that he has read the above and foregoing document and believes that the statements therein are true and correct to the best of his information, knowledge and belief.

thous the Thomas J.

Subscribed and sworn to before me this  $\underline{\mathcal{SR}}$  day of June, 2009.

Notary

My commission expires

WILLIAM S. CLARK My Commission Expires September 29, 2009 Ray County Commission #05500081 BUILDING A WORLD OF DIFFERENCE®



The Empire District Gas Company

# Depreciation Accrual Rates Final Report

April 2009



Schedule TJS-2 2 of 19



April 30, 2009

Ms. Laurie Delano Controller, Assistant Secretary & Assistant Treasurer The Empire District Electric Company 602 S. Joplin Avenue Joplin, MO 64801

Dear Ms. Delano:

We are enclosing our Report on Depreciation Accrual Rates for The Empire District Gas Company. The findings, conclusions, and recommendations that we present in the report are representative of plant activity as of December 31, 2008. In the report, we have provided discussions relative to depreciation accounting, the processes utilized and historical information relied upon, the determination of appropriate depreciation expense rates, as well as a review of the adequacy of current depreciation reserves. The Executive Summary of the report summarizes our major findings and recommendations.

We appreciate the opportunity to be of service in this matter and wish to thank you and your staff for the cooperation and assistance provided us in the completion of the report.

Very Truly Yours,

**BLACK & VEATCH CORPORATION** 

Thomas J. Surlivan

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# **EXECUTIVE SUMMARY**

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THE EMPIRE DISTRICT GAS COMPANY DEPRECIATION STUDY

# 1.0 EXECUTIVE SUMMARY

This report describes the analyses conducted and the results obtained for the gas utility property of The Empire District Gas Company ("EDG") with respect to its depreciation expense rates. The report is based on plant activity through December 31, 2008. The depreciation rates recommended in this report are considered appropriate for use in the near future. We recommend these rates be reviewed at least every five years. Ultimately the appropriate level of depreciation expense rates is a management decision taking into account various factors.

EDG's current rates went into effect in January 1, 2004 as a result of the Missouri Public Service Commission order in Case No. GR-2004-0072. If the Company concludes that a change in depreciation expense rates is appropriate in the next rate filing, we recommend the Company implement the depreciation expense rates based on the analyses set forth in Sections 4 and 5. Recommended rates are summarized on Table 5-4, column Q. Implementation of these rates will increase annual depreciation expense by approximately \$106,000 annually, based on December 31, 2008 plant balances.

The individual accrual rates that we recommend for each account recognize average service lives and reflect the results of actuarial analysis, reserve analysis, and our experience with similar utility property. We recommend changes to average service life (ASL) for the following accounts:

Account	Description	Existing ASL	Recommended ASL
367	Transmission Mains	60	65
369	Transmission Measuring and Regulating Station Equipment	44	45
378	Distribution Measuring and Regulating Station Equipment	44	50
379	City Gate Station Equipment	44	50
380	Services	45	43
385	Industrial Measuring and Regulating Station Equipment	44	45
391	Office Furniture and Equipment	22	15
393	Stores Equipment	27	25
394	Tools, Shop and Garage Equipment	27	30
395	Laboratory Equipment	29	30

EDG is currently required to record an annual expense for net cost of removal of up to \$90,163. EDG is further required to book the amount of net cost of removal incurred less \$90,163 against the accumulated reserve for depreciation annually. We recommend increasing the annual net cost of removal allowance allowed in customer rates to \$183,600, and that the entirety of gross

# **EXECUTIVE SUMMARY**

THE EMPIRE DISTRICT GAS COMPANY DEPRECIATION STUDY

salvage and cost of removal be booked to the depreciation reserve. Our recommended net cost of removal allowances per account are:

Account	Description	Recommended Cost of Removal Allowance
367	Distribution Mains	\$32,900
380	Services	\$130,300
381	Meters	\$1,300
383	House Regulators	\$20,600
385	Industrial Measuring and Regulating Station Equipment	\$600
390	Structures and Improvements	\$900
392	Transportation Equipment	-\$1000
396	Power Operated Equipment	-\$2,000
	TOTAL	\$183,600

The scope of this report includes a discussion of the practice of depreciation accounting (Section 3), the type of information examined in our analysis, the methods applied, and the results of the analyses conducted (Section 4), and a discussion of the Company's depreciation reserve, and development of our recommended accrual rates (Section 5).

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# **INTRODUCTION**

THE EMPIRE DISTRICT GAS COMPANY DEPRECIATION STUDY

# 2.0 INTRODUCTION

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This report presents the results of our analysis of the depreciation expense requirements for the gas utility property of The Empire District Gas Company (Company or EDG). The analysis is based on plant activity through December 31, 2008. We understand that the Company desires this report for an impending general rate case filing before the Missouri Public Service Commission.

The Empire District Gas Company acquired the natural gas properties of Aquila, Inc. in June 2006. The current depreciation rates were ordered for Aquila, Inc. d/b/a Aquila Networks–MPS and Aquila Networks–L&P ("Aquila") in case number GR-2004-0072. Aquila was also ordered to book a provision for net cost of removal as expense in case number GR-2004-0072. The current depreciation rates and the provision for net cost of removal were effective January, 1, 2004.

The rates recommended in this report reflect consideration of the results of actuarial analysis, depreciation reserve analysis, and our experience with other utilities.

Section 3 of this report briefly discusses the practice of depreciation accounting. Section 4 discusses the type of information examined in the analysis and the methods applied to develop the depreciation rates. Section 4 also discusses the results of the analyses and the recommended average service lives. Section 5 discusses analysis of the Company's existing depreciation reserve and develops our recommended accrual rates.

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# **DEPRECIATION ACCOUNTING**

THE EMPIRE DISTRICT GAS COMPANY DEPRECIATION STUDY

# 3.0 DEPRECIATION ACCOUNTING

Depreciation is the loss in service value not restored by current maintenance, incurred in connection with the consumption or prospective retirement of gas plant in the course of service from causes which are known to be in current operation and against which the utility is not protected by insurance. Among the causes to be considered are wear and tear, decay, action of the elements, inadequacy, obsolescence, changes in the art, changes in demand and requirements of public authorities, and in the case of natural gas companies, the exhaustion of natural resources (FERC Uniform System of Accounts).

Depreciation accounting provides a method whereby charges for the loss in service value are made against current income. By properly charging depreciation, the cost of depreciable plant less estimated salvage value (or plus estimated cost of removal) is distributed over the useful life of the asset in such a way as to equitably allocate it to the period during which service is provided through the use and consumption of such facilities.

#### 3.1 Annual Depreciation Expense

The annual depreciation expense represents the annual charge against income associated with the loss of service value of utility equipment. Historically, a number of different methods have been used by gas utilities to determine the level of depreciation expense to be charged against current income. Among the more common are:

- 1. A percentage of the investment in depreciable property.
- 2. A direct appropriation by management.
- 3. An amount equal to the original cost investment retired during the year.
- 4. A percentage of revenues.

The company's current practice is to calculate annual depreciation expense through the application of straight-line depreciation rates to the respective plant investment account balances. In essence, the annual depreciation expense rate is a percentage figure which, when applied to the dollar balance of investment in plant, yields a depreciation expense level that is expected to amortize the Company's investment over the life of the property.

The existing depreciation rates are based on those approved by the Missouri Public Service Commission for Aquila Inc. in 2004 in Case No. GR-2004-0072. In that case, Aquila and the Staff of the Missouri PSC entered a Stipulation and Agreement concerning depreciation rates, average service lives, and a provision for annual net salvage expense. With respect to depreciation rates, the authorized average service lives and straight line depreciation rates are shown in Table 4-1. With respect to accounting for net salvage, the Commission ordered up to \$90,163 of such cost is to be recorded as an annual expense. Any actual annual net salvage expense that is more or less than \$90,163 is to be recorded in the accumulated depreciation reserve.

#### 3.2 Depreciation Reserve

The depreciation reserve account is a balance sheet item which reflects accumulation of the activity related to annual depreciation expense and retirement accounting. Under the FERC

# **DEPRECIATION ACCOUNTING**

THE EMPIRE DISTRICT GAS COMPANY DEPRECIATION STUDY

Uniform System of Accounts, depreciation reserve is shown on the balance sheet as "Accumulated Provision for Depreciation."

The depreciation expense charged annually is accumulated in depreciation reserve. The original cost of investment in property retired during the year is deducted from the depreciation reserve. A further adjustment to the reserve is made by adding the salvage value credit and deducting the cost of removal associated with property retired. The use of proper annual depreciation rates to amortize investment over its useful service life will result in accruals to the depreciation reserve which equal the total investment ultimately retired, as adjusted for salvage value and cost of removal.

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An illustrative example follows:

#### Line No. Depreciation Reserve Balance

		<u> </u>	<u> </u>
1	Beginning of Period		1,000,000
2	Depreciation Charges		
3	Depreciation Expense	100,000	
4	Depreciation Charges to Clearing Accounts	10,000	
	· · · · · · ·	110,000	
5	Subtotal	·	1,110,000
6	Deductions		
7	Original Cost of Plant Retired	75,000	
8	Cost of Removal of Retired Plant	10,000	
9	Salvage Realized from Retired Plant	(5,000)	
10	Total Deductions	80,000	
11	Depreciation Reserve End of Period		1,030,000

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# HISTORICAL INFROMATION AND PROCEDURES

THE EMPIRE DISTRICT GAS COMPANY DEPRECIATION STUDY

# 4.0 HISTORICAL INFORMATION AND PROCEDURES

The determination of a reasonable annual depreciation expense rate is dependent on average service life, cost of removal, and salvage of the property in question. Ideally, the determination of average service life begins with analysis of Company records which show additions by year of installation (vintage year) and retirements by vintage year. We refer to this type of analysis as an actuarial method. Where historical data is not sufficient to produce reliable results using actuarial analysis, data may be sufficient to use a simulated plant balance approach. Both of these two analytical methods provide measures of historically experienced service lives. In order to reflect the prospective nature of depreciation, we consider past, present and anticipated future economic and environmental conditions; and sound engineering judgment. As a final step, the adequacy of depreciation reserve balances must be evaluated and the indicated depreciation rate adjusted so that total investment is recovered over the asset's life.

#### 4.1 Actuarial Analysis

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To prepare a sound and credible survivor curve analysis, a sufficient history of retirement data must exist. Based upon historical plant activity (retirements), a survivor stub curve explains the percent of original placements remaining in service by age. Using a least squares analysis technique, we compare this experienced survivor stub curve to general survivor curve types to identify the best fitting curve type and service life based on historical retirements. These curves provide an estimate of the average service life predicted based on historical retirements. Using this method, and relying on general survivor curves, we can estimate average service life of property which has only been partially retired.

EDG maintains its continuing property record in several files. Historical depreciation data was obtained from Aquila with vintage records dating to 1924 and transaction details from 1960 through May 2006. EDG has maintained depreciation data since acquiring the gas system in June 2006. We find EDG's depreciation database is sufficient for actuarial analysis.

#### 4.2 Recommended Average Service Lives

In Table 4-1, we summarize the average service lives underlying EDG's existing depreciation rates (Column C), and the average service lives we recommend for the purpose of this report (Column E). We use recommended average service lives to develop our recommended accrual rates. Based on actuarial analysis and our experience with gas (and other) utility property, the following discussion explains in further detail the basis for recommending change in the average service lives for certain accounts:

- Account 367 Transmission Mains. We recommend increasing the average service life from 60 to 65 years. A lack of retirement activity over the last several years justifies the service life extension.
- Account 369 Transmission Measuring and Regulating Station Equipment. We recommend increasing the average service life from 44 to 45 years.
- Account 378 Distribution Measuring and Regulating Station Equipment. We recommend increasing the average service life from 44 to 50 years. A lack of retirement activity over the last several years justifies the service life extension.

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# HISTORICAL INFROMATION AND PROCEDURES

THE EMPIRE DISTRICT GAS COMPANY DEPRECIATION STUDY

- Account 379 City Gate Station Equipment. We recommend increasing the average service life from 44 to 50 years. A lack of retirement activity over the last several years justifies the service life extension.
- Account 380 Services. We recommend decreasing the average service life from 45 years to 43 years. A 43 year average service life is the statistical best fit for all of Iowa curve types.
- Account 385 Industrial Measuring and Regulating Station Equipment. We recommend increasing the average service life from 44 to 45 years.
- Account 391 Office Furniture and Equipment. We recommend decreasing the average service life from 22 to 15 years. We find a 15-L2 Iowa curve to be the best fit of the data.
- Account 391C Computer Equipment. We find a 6 year average service life to be the best fit of the data, however due to the average age of survivors and current reserve ratio we do not recommend a change from 7 years.
- Account 393 Stores Equipment. We recommend decreasing the average service life from 27 to 25 years.
- Account 394 Tools, Shop and Garage Equipment. We recommend increasing the average service life from 27 to 30 years.
- Account 395 Laboratory Equipment. We recommend increasing the average service life from 29 to 30 years.
- Account 397 Communications Equipment. This account is no longer used by EDG.

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# HISTORICAL INFROMATION AND PROCEDURES

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THE EMPIRE DISTRICT GAS COMPANY DEPRECIATION STUDY

# Table 4-1The Empire District Gas CompanyRecommended Average Service Lives and Associated Accrual Rates

[A]	[B]	[C]	[D]	[Ë]	[F]	[G]	[H]
		Exis	sting	Recom	Recommended		ige in
		Average	Life	Average	Life	Average	Life
Acct.		Service	Accrual	Service	Accrual	Service	Accrual
<u>No.</u>	Account	Life	Rate	Life	Rate	Life	Rate
		Years		Years		Years	
			1 / [C]		1 / [E]	[E] - [C]	[F] - [D]
	Transmission Plant						
366	Structures	45	2.22%	45	2.22%	0	0.00%
367	Mains	60	1.67%	65	1.54%	5	-0,13%
369	Measuring & Regulating Stations	44	2.27%	45	2,22%	1	-0.05%
	Distribution Plant						
375	Structures	45	2 22%	46	2 22%	0	0.00%
376	Moine	45	2.22/0	45	2.2270	0	0.00%
378	Measuring & Regulating Stations	45	2.22/0	40 50	2.22 /0	6	-0.27%
370	City Gate Stations	44	2.27%	50	2.00%	6	-0.27%
380	Services	45	2 22%	43	2.33%	-2	0.11%
381	Meters	40	2.50%	40	2.50%	ō	0.00%
383	Regulators	40	2.50%	40	2.50%	õ	0.00%
385	Industrial Meas/Reg Equip	44	2.27%	45	2.22%	1	-0.05%
387	Other Equipment		0.00%		0.00%		0.00%
	- · · · ·						
	General Plant					-	
390	Structures & Improvements	45	2.22%	45	2.22%	0	0.00%
391	Furniture & Equipment	22	4.55%	15	6.67%	-/	2.12%
391	Computer Equipment	10	14.29%	12	14.29%	0	0.00%
392	I ransportation Equipment	12	8.33%	12	8.33%	0	0.00%
393	Stores Equipment	27	3.70%	25	4.00%	-2	0.30%
394 205	Loberatory Equipment	21	3.10%	30	3.33%	ى 1	-0,3770
300	Laboratory Equipment	29	5.40% 6 76%	30	5.0070	0	-0, 12 %
307	Communication Equipment	10	0.2070	10	0.20%	U	3 45%
208	Miscellaneous Equipment	23	J.4070 135%	23	0.00% ⊿ 35%	0	0.00%
<b>J</b> UU	maveilaneous Equipment	20	4.0070	20	<del>4</del> ,0070	v	0.0070

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### DEVELOPMENT OF RECOMMENDED ACCRUAL RATES

THE EMPIRE DISTRICT GAS COMPANY DEPRECIATION STUDY

# 5.0 DEVELOPMENT OF RECOMMENDED ACCRUAL RATES

After developing our recommended average service lives, we then look at any adjustments that need to be made within the accounts for net salvage and amortization of depreciation reserve, before developing our recommended accrual rates.

### 5.1 Net Salvage Allowance

The traditional approach for incorporating allowance for net salvage is to compare annual net salvage (salvage minus cost of removal) to the original cost of the plant retired during that year over a representative historical period. The traditional approach assumes that the ratio of net salvage dollars to the original cost dollars of the retirements is representative of the allowance that will ultimately apply to all plant in service over that life of that asset. In a whole life depreciation calculation, this allowance is then added to (for a net cost of removal) or deducted from (for a net salvage) one in the numerator and then divided by the average service life.

This approach provides reasonable results where there are modest amounts of salvage or cost of removal or where the amounts are fairly consistent (such as for unit property or general plant). However, cost of removal for some natural gas distribution plant can be as much as or more than the original cost of the plant retired especially if natural gas lines that are under streets need to be relocated. In these instances, it may not be reasonable to assume that this experience applies to all plant.

Problems may result (especially with mains and services) if the net salvage allowance is large and a relatively small amount of plant is being retired. A large depreciation reserve may be accumulated in anticipation of cost of removal expenses that may or may not occur. In the 1998 Laclede case, the Missouri Public Service Commission Staff believed that this was at the root of large differences between actual and theoretical reserve. The Staff proposed removing net salvage from the depreciation calculation and treated salvage and cost of removal as a separate expense (or revenue requirement). In case number GR-2004-0072 a stipulation and agreement was reached by all parties whereby EDG (formerly Aquila) is required to record an annual expense for net cost of removal of up to \$90,163. EDG is further required to book the amount of net cost of removal incurred less \$90,163 against the accumulated reserve for depreciation annually.

We believe however, that the goal of matching actual cost of removal expenses and cost of removal allowances can be accomplished within the calculation of depreciation rates. To achieve this goal, we analyzed EDG's salvage costs and cost of removal over the five year period 2004 through 2008 and found the annual net cost of removal allowance allowed in customer rates should be increased to \$183,600. Our recommended cost of removal allowance per account is shown in Table 5-1, Column K. To incorporate the cost of removal allowance into the depreciation rate, we divide the annual cost of removal allowance by the plant in service balance for each account. This percentage, shown in Table 5-2, Column G, is then added to the accrual rate related to average service life. Table 5-2, Column H shows the adjusted whole life depreciation rates.

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#### DEVELOPMENT OF RECOMMENDED ACCRUAL RATES

THE EMPIRE DISTRICT GAS COMPANY DEPRECIATION STUDY

Some may view this annual allowance approach is an "impure" application of the whole life method because it is based on a rather short term analysis of activity. As plant ages and retirement activity increases, we expect that the annual allowance may increase. Insufficient depreciation reserve might be accumulated if the annual allowance is not reviewed on a regular basis. However, in Missouri, depreciation rates are reviewed every five years as required by Commission rule. This frequency will allow for future adjustment of the annual net salvage allowance to reflect changes in activity, if necessary.

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April 2009

# Table 5-1The Empire District Gas CompanySummary of Recommended Cost of Removal Allowance

[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[1]	[J]	[K]
		[	Historical Gross Salvage less Cost of Removal							
Acct. No.	Account	Plant 12/31/2008	2004	2005	2006	2007*	2008	Total	5 Year Average	Cost of Removal Allowance
		\$	\$	\$	\$	\$	\$	\$	\$	\$
	Transmission Plant									
366	Structures	10,880	0	0	0	0	0	0	0	0
367	Mains	6,803,691	0	0	0	0	0	0	0	0
369	Measuring & Regulating Stations	412,130	0	0	0	0	(152)	(152)	(30)	0
	Distribution Plant									
375	Structures	98,669	0	Û	۵	0	0	0	0	
376	Mains	40,882,215	(36,840)	(71,771)	(30,844)	0	(24,980)	(164,435)	(32,887)	32,900
378	Measuring & Regulating Stations	636,217	0	0	0	0	0	D	٥	0
379	City Gate Stations	932,939	0	0	0	0	0	0	0	0
380	Services	23,733,563	(81,220)	(137,728)	(90,580)	0	(342,062)	(651,590)	(130,318)	130,300
381	Meters	5,233,634	(27)	(123)	(152)	0	(6,140)	(6,442)	(1,288)	1,300
383	Regulators	3,111,493	(47,191)	(42,094)	(13,732)	0	0	(103,016)	(20,603)	20,600
385	Industrial Meas/Reg Equip	583,501	(193)	(2,797)	15	Û	0	(2,975)	(595)	600
387	Other Equipment	5,472	0	0	0	0	0	0	0	0
	General Plant									
390	Structures & Improvements	653,583	(4,444)	0	0	0	0	(4,444)	(889)	900
391	Furniture & Equipment	153,532	0	0	0	0	0	O	0	0
391	Computer Equipment	304,345	0	0	0	0	0	0	0	0
392	Transportation Equipment	1,213,917	0	1,011	850	3,129	0	4,990	998	(1,000)
393	Stores Equipment	29,019	0	0	0	0	0	0	D	0
394	Tools Shop & Garage Equipment	761,155	0	0	0	0	(38)	(38)	(8)	0
395	Laboratory Equipment	98,267	0	0	0	0	0	0	0	0
396	Power Operated Equipment	425,081	0	9,979	0	0	0	9,979	1,996	(2,000)
397	Communication Equipment	0	0	0	D	0	0	0	0	0
398	Miscellaneous Equipment	82,094	0	0	0	0	0	0	٥	0
	Total	86,165,397	(169,914)	(243,522)	(134,443)	3,129	(373,372)	(918,123)	(183,625)	183,600

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\* During the acquisition transition period, gross salvage and cost of removal activity that occurred in 2007 was posted in 2008.

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# DEVELOPMENT OF RECOMMENDED ACCRUAL RATES

THE EMPIRE DISTRICT GAS COMPANY DEPRECIATION STUDY

# Table 5-2The Empire District Gas CompanyRecommended Life Rates, Cost of Removal Rates and Depreciation Rates

[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[1]	
				Recommended					
		Depreciable	Average	Life	Cost of	Cost of	Whole Life		
Acct.		Plant	Service	Accrual	Removal	Removal	Deprecaition	Depreciation	
No.	Account	12/31/2008	Life	Rate	Allowance	Rate	Rate	Expense	
		\$	Years	1 / [D]	\$	[F] / [C]	[E] + [G]	[C] * [H]	
	Transmission Plant								
366	Structures	10,880	45	2.22%	0	0.00%	2.22%	242	
367	Mains	6,803,691	65	1.54%	0	0.00%	1.54%	104,777	
369	Measuring & Regulating Stations	412,130	45	2.22%	0	0.00%	2.22%	9,149	
	Distribution Plant								
375	Structures	98,669	45	2.22%		0.00%	2.22%	2,190	
376	Mains	40,882,215	45	2.22%	32,900	0.08%	2.30%	940,291	
378	Measuring & Regulating Stations	636,217	50	2.00%	0	0.00%	2.00%	12,724	
379	City Gate Stations	932,939	50	2.00%	0	0.00%	2.00%	18,659	
380	Services	23,733,563	43	2.33%	130,300	0.55%	2.88%	683,527	
381	Meters	5,233,634	40	2.50%	1,300	0.02%	2.52%	131,888	
383	Regulators	3,111,493	40	2.50%	20,600	0.66%	3.16%	98,323	
385	Industrial Meas/Reg Equip	583,501	45	2.22%	600	0.10%	2.32%	13,537	
387	Other Equipment	5,472		0.00%	0	0.00%	0.00%	0	
	General Plant								
390	Structures & Improvements	653,583	45	2.22%	900	0.14%	2.36%	15,425	
391	Furniture & Equipment	153,532	15	6.67%	0	0.00%	6.67%	10,241	
391	Computer Equipment	304,345	7	14.29%	0	0.00%	14.29%	43,491	
392	Transportation Equipment	1,213,917	12	8.33%	(1,000)	-0.08%	8.25%	100,148	
393	Stores Equipment	29,019	25	4.00%	0	0.00%	4.00%	1,161	
394	Tools Shop & Garage Equipment	761,155	30	3.33%	0	0.00%	3.33%	25,346	
395	Laboratory Equipment	98,267	30	3.33%	0	0.00%	3.33%	3,272	
396	Power Operated Equipment	425,081	16	6.25%	(2,000)	-0.47%	5.78%	24,570	
397	Communication Equipment	0		0.00%	0	0.00%	0.00%	0	
398	Miscellaneous Equipment	82,094	23	4.35%	0	0.00%	4.35%	3,571	
	Total	86,165,397			183,600			2,242,531	

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#### DEVELOPMENT OF RECOMMENDED ACCRUAL RATES

THE EMPIRE DISTRICT GAS COMPANY DEPRECIATION STUDY

#### 5.2 Depreciation Reserve

After developing indicated accrual rates, we evaluate the adequacy of the depreciation reserve balance (Table 5-3). In order to correct any imbalances in the depreciation reserve accounts, we first determine a theoretical level of where depreciation reserve should be. We calculate this based on the weighted age of the assets in each account, relative to our recommended average service lives. Without adjustment, to the extent that calculated reserve, Table 5-3, Column I, is greater than or less than the book reserve, Table 5-3, Column D, the Company will under- or over-recover, respectively, its depreciable plant investment. Differences between the calculated theoretical reserve and the book reserve can be attributed primarily to changes in life characteristics or historical rates which have not properly reflected life characteristics or changes are recognized and reflected in the depreciation rates directly affect the book reserves.

By subtracting the actual depreciation reserve from calculated depreciation reserve, we determine the reserve deficiency, Column J. Any amounts that have been over- or under-recovered should be amortized over the remaining life of the asset group. We calculate a reserve deficiency of \$1.4 million at December 31, 2008. We believe that this under-recovery is not material enough to require an amortization at this time.

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### Table 5-3 The Empire District Gas Company Analysis of Accumulated Depreciation Reserve

[A]	[B]	(C)	[D]	(E)	(F)	[G]	[H]	[1]	[J]
Acct. No.	Account	Depreciable Plant 12/31/2008	Accumulated Depreciation Reserve 12/31/2008	Reserve Ratio	Recommended Average Service Life	Weighted Age	Calculated Reserve Ratio Based On Weighted Age	Calculated Depreciation Reserve	Reserve
		\$	\$	%	Years	Years	%	\$	\$
	Transmission Plant			[D]/[C]			[G] / [F]	[H] * [C]	[I] - [D]
366	Structures	10,880	9,595	88,19%	45	24.79	55.09%	5.994	(3.602)
367	Mains	6,803,691	5,014,628	73.70%	65	38.37	59.03%	4.016.271	(998 357)
369	Measuring & Regulating Stations	412,130	155,020	37.61%	45	16.81	37.36%	153,953	(1,066)
	Total Distribution Plant	7,226,700	5,179,243	71.67%			57.79%	4,176,218	(1,003,025)
	Distribution Plant								
375	Structures	98.669	64.727	65.60%	45	30.22	67 16%	66 261	1.624
376	Mains	40,882,215	15.056.283	36.83%	45	19 73	43 84%	17 924 590	2 969 207
378	Measuring & Regulating Stations	636.217	332 581	52.27%	50	20.94	41 88%	266 448	2,000,297
379	City Gate Stations	932,939	436,162	46,75%	50	20.54	41.08%	383 251	(00,134)
380	Services	23,733,563	12,276,976	51.73%	43	19.79	46 02%	10 922 959	(1354.018)
381	Meters	5,233,634	2,292,624	43.81%	40	22.72	56.80%	2 972 704	680.080
383	Regulators	3,111,493	845,249	27,17%	40	17.39	43.48%	1 352 722	507 473
385	Industrial Meas/Reg Equip	583,501	164,180	28.14%	45	13.07	29.04%	169 475	5 295
387	Other Equipment	5,472	5,472	100.00%			-		
	Total Distribution Plant	75,217,704	31,474,256	41.84%			45.28%	34,058,400	2,589,616
	General Plant								
390	Structures & Improvements	653 583	28 446	4 35%	45	9 72	10 200/	110 500	04 007
391	Furniture & Equipment	153 532	32 545	21 20%	15	3.48	10.2970	119,533	91,087
391	Computer Equipment	304,345	185 107	60.82%	7	5.66	20.20%	30,019	3,075
392	Transportation Equipment	1.213.917	575.635	47 42%	12	5.60	46 17%	240,004	60,977
393	Stores Equipment	29,019	9.715	33.48%	25	8 68	34 72%	10 075	(13,210)
394	Tools Shop & Garage Equipment	761,155	649.673	85.35%	30	16.33	54 43%	A1A 332	(225.254)
395	Laboratory Equipment	98,267	89,299	90.87%	30	22.54	75 13%	73,831	(15 467)
396	Power Operated Equipment	425,081	369,963	87.03%	16	11.45	71 56%	304 199	(15,407)
397	Communication Equipment	0	0	0.00%				004,100	(00,104)
398	Miscellaneous Equipment	B2,094	43,687	53.22%	23	12.40	53.91%	44,260	573
	Total General Plant	3,720,993	1,984,069	53.32%			48.60%	1,808,349	(175,721)
	Total Depreciable Plant	86,165,397	38,637,567	44.84%			46.47%	40,042,966	1,410,871

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### DEVELOPMENT OF RECOMMENDED ACCRUAL RATES

THE EMPIRE DISTRICT GAS COMPANY DEPRECIATION STUDY

#### 5.3 Recommended Accrual Rates

Table 5-4 summarizes the Company's existing and recommended accrual rates and the annual depreciation accrual incurred when each of these rates is applied to the depreciable plant balance at December 31, 2008.

We show in Table 5-4 that when our recommended average service life related accrual rates in Column I are applied to depreciable plant balances as of December 31, 2008, annual depreciation expense would increase by approximately \$13,000 over levels produced by existing rates (Column O). Our recommended life related portion of depreciation expense is shown in Table 5-4, Column J. Our recommended cost of removal rate and associated cost of removal accrual are shown in Table 5-4, Columns K and L respectively. Our annual net cost of removal recommendation is an increase of approximately \$93,000 over the existing allowance.

We propose the use of whole life depreciation rates that include both the average service life accrual and the net cost of removal accrual. We show our proposed depreciation accrual rates in Column Q of Table 5-4. Using our proposed depreciation rates, all of the actual incurred cost of removal will be booked to the depreciation reserve, and there will not be an expense allowance.

[A]	{B]	[C]	[D]	[E]	(F)	[G]	(H)	(1)	[J]	[K]	[L]	[M]	[N]	[0]	(P)	[Q]
	Į		Existing			Recommended				Change in			Proposed			
		Depreciable	Average	Life	Life	Cost of	Average	Life	Life	Cost of	Cost of	Average	Life	Life	Cost of	Whole Life
Acct.		Plant	Service	Accrual	Related	Removal	Service	Accrual	Related	Removal	Removal	Service	Accrual	Related	Removal	Depreciation
No.	Account	12/31/2008	Life	Rate	Accrual	Allowance	Lfe	Rate	Accrual	Rate	Accrual	Lite	Rate	Accrual	Allowance	Rate
		3	rears	4.400	3	3	rears		a 101 - 111		3			а (1) (F1	₽   1  (^1)	m + 101
	<b>T</b>			γ/[D]	[C] <sup>−</sup> [E]			17 [8]	lel - lu	łabie 5-∠		[11] - [0]	(I <b>J - [E</b> ]	[1] - [F]	[L] - [G]	[i] + [n]
200	Fransmission Plant	10 000	45	0.000/	242		45	2 220	949	0.000	•	~	0.000/			2 2 2 0/
366	Structures	10,880	45	2.22%	142 633		45	2.22%	104 777	0.00%	Ű	U 5	0.00%			2.2270
207	Mancuring & Decudation Stations	412 120	44	1.07%	0.255		45	2 2 2 2 4 20	04,77	0.00%	ő	1	0.1376	(0,040)		7 7 7 %
303	Measuring a Regularing atations	412,130	44	2.2170	3,333	-	40	2.2270	3,143	- 0.00% -			-0.03 %	(200)		2.22 /0
	Total Distribution Plant	7,226,700		1.71%	123,219			1.58%	114,168		0			(9,051)		
	Distribution Plant															
375	Structures	98,669	45	2.22%	2,190		45	2.22%	2,190	0.00%	0	0	0.00%	0		2,22%
376	Mains	40,882,215	45	2.22%	907,585		45	2.22%	907,585	0.08%	32,706	0	0.00%	0		2.30%
378	Measuring & Regulating Stations	636,217	44	2.27%	14,442		50	2.00%	12,724	0.00%	0	6	-0.27%	(1,718)		2.00%
379	City Gate Stations	932,939	44	2.27%	21,178		50	2.00%	18,659	0.00%	0	6	-0.27%	(2,519)		2.00%
380	Services	23,733,563	45	2.22%	526,885		43	2.33%	552 992	0.55%	130,535	-2	0.11%	26,107		2.88%
381	Meters	5,233,634	40	2.50%	130,841		40	2.50%	130,841	0.02%	1,047	0	0.00%	0		2.52%
383	Regulators	3,111,493	40	2.50%	77,787		40	2.50%	77,787	0.66%	20,536	0	0.00%	D		3,16%
385	Industrial Meas/Reg Equip	583,501	44	2.27%	13,245		45	2.22%	12,954	0.10%	584	1	-0.05%	(292)		2,32%
387	Other Equipment	5,472		D.00%	0			0.00%	0	0.00%	0		0.00%	0		0.00%
	Total Distribution Plant	75,217,704		2.25%	1,694,154			2,28%	1,715,733		185,406			21,578		
	General Plant															
390	Structures & Improvements	653,583	45	2.22%	14,510		45	2.22%	14,510	0.14%	915	0	0.00%	0		2.36%
391	Furniture & Equipment	153,532	22	4.55%	6,986		15	6.67%	10,241	0.00%	0	-7	2.12%	3,255		6.67%
391	Computer Equipment	304,345	7	14.29%	43,491		7	14.29%	43,491	0.00%	0	0	0.00%	0		14.29%
392	Transportation Equipment	1,213,917	12	8.33%	101,119		12	8.33%	101,119	-0.08%	(971)	0	0.00%	0		8.25%
393	Stores Equipment	29,019	27	3.70%	1,074		25	4.00%	1,161	0.00%	0	-2	0.30%	87		4.00%
394	Tools Shop & Garage Equipment	761,155	27	3.70%	28,163		30	3.33%	25,346	0.00%	0	3	-0.37%	(2,816)		3.33%
395	Laboratory Equipment	98,267	29	3,45%	3,390		30	3,33%	3,272	0,00%	0	1	-0.12%	(118)		3.33%
396	Power Operated Equipment	425,081	16	6.25%	26,56B		16	6,25%	26,568	-0,47%	(1,998)	0	0.00%	0		5,78%
397	Communication Equipment	0	29	3.45%	0			0.00%	0	0.00%	0		-3.45%	0		0.00%
398	Miscellaneous Equipment	82,094	23	4.35%	3,571		23	4.35%	3,571	_ 0.00% _	0	U	0.00%	0		4.35%
	Total General Plant	3,720,993		6.15%	228,871			6,16%	229,278		(2,054)			408		
	Total Depreciable Plant (1)	86,165,397		2.37%	2,046,243	90,163		2.39%	2,059,179	0.21%	183,352			12,935	93,189	2.60%

Table 5-4 The Empire District Gas Company Summary of Recommended Depreciation Accrual Rates

(1) Existing allowance for net salvage of \$90,163 per the Unanimous Stipulation and Agreement in Case No. GR-2004-0072: "The provision for jurisdictional net cost of removal of \$68,272 for MPS, and \$21,891 for L&P is to be recorded as an annual expense for rate making purposes."

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